**General Comments On the Revised Draft Energy Resource Investment Plan**

**State Energy Agency Coordination**

One concern of PG&E is the potential proliferation of overlapping energy programs offered by multiple state agencies in California. The entrance of the CPA into the sector, if not properly managed, will only muddy the waters further with respect to agency jurisdiction, role, program offerings, and so on. The result will be increased transaction costs and reduced efficiencies for the utilities and other entities that will invariably be involved in supporting these programs. The CPA may wish to consider ways in which programmatic functions can be consolidated within one agency and what functions would be best handled by the CPA. Mechanisms for improving inter-agency coordination should also be a priority.

PG&E also is concerned about the consequences for California of any additional financial commitments. Californians are already saddled with too much power at high prices as a result of DWR's entrance into the power market at the height of the electricity crisis. As you are aware, DWR signed numerous long-term power contracts when prices were above both historical and current levels. PG&E is concerned that the CPA will similarly commit to thousands of megawatts of power (albeit renewable) and undefined conservation programs without any clear rationale or strategic purpose for these commitments. The CPA will need to assure the public that in making such commitments there is a convincing argument in favor of them.

The CPA needs to construct a clear and convincing case for any proposed actions based upon well-documented analysis rather than a vague vision and unspecified assumptions. The CPA wants to spend billions of dollars on renewables, conservation, and generation reserves. California may require investments in these areas, but the CPA should first justify its proposals. As a starting point, the CPA should do the following for each proposal:

- describe the status of any technology in which the agency is considering making an investment;
- identify existing California programs that target the same or similar technology or market, present the existing program and its approach and outline how the CPA's efforts will complement existing programs;
- describe the market and regulatory barriers facing the CPA and discuss how these will be addressed for the technologies and programs it wants to support;
- state what the CPA will do and why; and,
- explain how Californians can judge the effectiveness of CPA's investments.

Any justification for the CPA's proposed investments should be well documented. The California Energy Commission (CEC) the California Public Utilities Commission (CPUC) and the Legislature (SB 532) have developed extensive records on many technology, market, and regulatory issues. The CPA should ensure that its work is coordinated with that of other state entities.

**Renewables**

As a utility which has had a long history with non-fossil resources, PG&E appreciates the value of a diverse resource mix and is supportive of long-run goals to include significant renewable resources in the electric generation mix. PG&E supports the CPA's desire to make a major commitment to renewables to the extent such a commitment is grounded in solid analysis of the current in-state market for renewable power and makes a clear and convincing case for such investments. However, PG&E would expect that any burden, cost or otherwise, of committing Californians to a renewables strategy will fall evenly on all industry stakeholders (e.g. utilities, municipalities, irrigation districts, municipal utility districts).

For example, the CPA proposes to act as a "broker" for renewable power, where it would negotiate power purchase contracts with renewable developers, then reassign the contracts to DWR, who would in turn reassign them to the utilities. First, PG&E agrees with DWR Director Tom Hannigan that the DWR does not need any more contracts. Second, why should only the investor-owned utilities shoulder the costs of such contracts particularly given our relatively large existing commitment to renewable resources?

The CPA's Plan has little justification as currently presented. As discussed above, the Plan does not present any systematic examination of the status of renewable technologies or their use in California nor does it include specific program plans for individual renewable technologies. Rather, the Plan seems to ignore recent experience with soliciting renewable energy projects. The CEC has selected over 1,300 MW of renewable power through three competitive solicitations, but it has found development of these projects stymied by the credit problems of California's utilities.

Moreover, the CPA seems to assume if one invests enough money in renewable energy, renewable technologies will become competitive. The report only discusses in a cursory fashion the costs of renewable resources. On page 43, for example, the CPA lists the levelized costs for a variety of generating technologies. The sources for the cost information are not publicly available. Finally, there is no discussion of what impact the CPA's investments in any of these technologies may be on their costs, even though lowering the cost of renewables through bulk buying is cited as one of the purposes for CPA's investments.

**Use of Utility Bills**

In addition, the draft plan specifically mentions use of the utility bill to provide lenders confidence in the repayment of consumer loans. While PG&E supports close coordination between proposed CPA loans and utility delivered energy efficiency programs, the use of the utility bill to collect on such loans can be ruled out this year due to the billing system changeover now underway. It is also undesirable due to the policy and implementation issues raised by commingling consumers' obligations to pay for energy with their debt financing for CPA programs. For example, on a partial payment would the amount be allocated toward energy or debt repayment? Would a customer face shutoff if they fell in arrears on debt repayment?

**Energy Efficiency**

The CPA also proposes to invest in energy efficiency; however, the plan lumps energy efficiency with distributed generation and load management, so that it is impossible to tell what the energy efficiency targets are by sector. The Plan also does not adequately discuss the specific conservation barriers the CPA wants to address nor does it describe how the CPA's efforts would complement existing CPUC, CEC, Department of General Services and utility programs. In order to assure the best results, the plan must provide adequate detail to allow close coordination with existing energy efficiency programs.

The proposed Targeted Load Reduction Program, while having potential, is dependent upon the widespread introduction of technologies in configurations with which there is little practical experience. This is a significant hurdle to any sort of rapid implementation. Additionally, there is a limited demand reduction market and the issue of possible negative interactions with other existing demand reduction programs must be examined closely.

**Reserve Margin**

The CPA may or may not have a role in acting as a backstop to make sure California's reserve margin is adequate. The revised draft of the Plan does not provide any analytical foundation for the CPA's recommended reserve margin target of 15%. The CPA chooses this target by settling on the approximate midpoint in the CEC's *2002-2012 Electricity Outlook* executive summary: "Regulators have historically set...planning reserve margins of 12 – 22 percent." The report goes on to observe that the CPA will need to work with the CEC, CPUC and CAISO during the next year to determine an appropriate reserve margin target. The CPA should also plan to include other interested stakeholders such as consumers and the utilities.

**Financial Analysis**

Finally, there is inadequate documentation of the assumptions or calculations in the financial plan. As a state financing authority, the CPA's credibility will rise or fall on the transparency of its financial analysis and financial plan. The CPA should avoid any financial strategy that appears risky (e.g. too heavy reliance on revenues generated from peak hour operations) or could cause electricity rates to rise further.